

**BILL #** HB 2307

**SPONSOR:** Reagan

**TITLE:** health savings accounts; reimbursement; incentives

**STATUS:** As Introduced

**PREPARED BY:** Eric Billings

## FISCAL ANALYSIS

### Description

The bill would allow insurers an exemption from the state insurance premium tax for the net premiums paid for high deductible health plans (HDHP) issued in connection with a health savings account (HSA). The bill would also allow for subtractions for individual and corporate income tax from the taxpayer's Arizona adjusted gross income for rewards or incentives received under a wellness program, contributions made to a HSA, and health reimbursement arrangement (HRA) contributions made by the employer.

### Estimated Impact

It is difficult to accurately estimate the impact of this bill on the General Fund due to the unavailability of data regarding the number of HSA premiums that are taxed, the number and size of HRAs, and the rewards or incentives received as a result of wellness programs. However, based on a set of qualifying assumptions using national data, it is estimated that the insurance premium tax provisions of this bill alone could reduce General Fund revenues by \$(3.4) million annually beginning in FY 2010.

The Department of Insurance (DOI) reports that they are unable to estimate the impact of this bill since the department does not collect information on the amount of premium tax paid as a result of high deductible health savings accounts.

The Department of Revenue does not have an estimate of the fiscal impact of this bill.

### Analysis

Under this bill, insurers would be exempt from paying a premium tax for high deductible plans issued in connection with a HAS. HSAs, created in a federal Medicare bill signed in 2003, allow individuals to save for future health and retirement related expenses while taking advantage of tax breaks. Participation in a HDHP is a requirement for inclusion into a HSA. This bill also allows for subtractions from individual and corporate income tax for contributions to the accounts.

An estimate of the potential impact of this bill on insurance premium tax collections was calculated based on DOI data regarding the total value of health insurance premiums estimated to have been issued in CY 2008 (\$4.3 billion), and the national estimate of 4% as the average number of covered workers enrolled in HDHPs with a savings option. If we assume that the insurance premium tax collected on health insurance premiums is reduced by 4%, and apply the 2% insurance premium tax rate, collections would decrease by \$(3.4) million (\$4.3 billion x .02 x .04 = \$3.4 million).

In addition to potentially reducing insurance premium tax collections, the provisions of this bill would reduce individual and corporate income tax collections by an undetermined amount. Federal tax law provides an individual income tax exemption for premiums paid for health savings plans of \$2,900 for individual coverage, and \$5,800 for family coverage. This bill provides that contributions over that amount made by the taxpayer or the taxpayer's employer, and included in the taxpayer's federal adjusted gross income, may be deducted from the taxpayer's state tax liability.

The bill also provides that rewards or incentives received under a wellness program may be deducted from the taxpayer's state income tax liability. Again, it is not possible to estimate the value of these rewards and incentives. We do not have sufficient data to estimate the impact of this provision.

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Finally, the bill provides for a deduction from state corporate income tax liability for contributions made on behalf of a taxpayer's employees for HSAs or HRAs, to the extent that these contributions are not already deductible under the internal revenue code. We do not have sufficient data to estimate the impact of this provision.

#### **Local Government Impact**

The Urban Revenue Sharing (URS) formula distributes 15% of individual and corporate income taxes collected two years prior to incorporated cities and towns. Based on the qualifying assumptions above, the provisions contained in this bill would decrease the URS distributions by \$(500,000) beginning in FY 2012.

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